

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL CONCEPTS B (IOBM – D207)**

**Date: Monday, 13th November 2017**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**QUESTION 1**

Zangaphee Ltd had the following transactions for one of its raw materials during April 2007:

|  |  |  |
| --- | --- | --- |
| April 1  4  10  12  23  26  29 | opening stock  received  issued  received  issued  received  issued | 40 units @ K100 each  140 units @ K110 each  90 units  60 units @ K120  100 units  200 units @ K100 each  70 units |

**Required:**

1. Write up the stores ledger cards using the following methods of stock valuation:

(i) First In First Out (FIFO); *(2 marks)*

(ii) Last In First Out (LIFO). *(2 marks)*

1. State the cost of materials used under each system during the month of

April. (*5 marks)*

(c) (i) Describe the Weighted Average Cost method of valuing stocks.

*(3 marks)*

1. Explain how the use of the Weighted Average Cost method would affect the cost of materials used and the stock balance compared to FIFO and LIFO methods, in times of consistently rising prices.

*(3 marks)*

**(Note**: the stores ledger card is not required for section (c) of the question).

**(Total 15 marks)**

**QUESTION 2**

Ndirande Fabricators, a medium-sized metal working firm, produces two types of tool boxes; Small and Large. In September 2016, the budget department of Ndirande Fabricators gathered the following data in order to project sales and budget requirements for 2017:

**2017 Projected sales**

|  |  |  |
| --- | --- | --- |
| Size  Small  Large | Units  60,000  40,000 | Price  K  700  1,000 |

**2017 Stocks (in units)**

|  |  |  |
| --- | --- | --- |
| Size  Small  Large | Expected stocks  01/01/17  20,000  8,000 | Desired stocks  31/12/17  25,000  9,000 |

The materials used to produce one unit of either model and the projected data for

2007 with respect to materials are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Anticipated | | | | Expected | Desired |
|  | Amount used | per unit | purchase | stocks | stocks |
| Steel – Type I  Steel – Type II  Graphite | Small  4kg  2kg  - | Large  5kg  3kg  1lt | price (K)  80 per kg  50 per kg  30 per lt | Jan 1 2017  32,000 kg  29,000 kg  6,000 lt | Dec 31 2017  36,000 kg  32,000 kg  7,000 lt |

Projected direct labour requirements for 2017 and rates are as follows:

Size Hours per unit Rate per hour (K)

Small 2 30

Large 3 40

**Required:**

Prepare the following budgets for 2017:

1. Sales budget (in Kwacha).  *(3 marks)*

(b) Production budget (in units) *(3 marks)*

(c) Materials purchases budget (in quantities) *(5 marks)*

1. Materials purchases budget (in Kwacha) *(2 marks)*

(e) Direct labour budget (in Kwacha) *(2 marks)*

**(Total 15 Marks)**

**QUESTION 3**

The cost volume profit (CVP) analysis is one of the techniques used by managers in planning production and sales volumes as well as profit levels.

**Required:**

(a) Explain the meaning of each of the following terms that are fundamental to CVP analysis:

1. fixed cost; *(1 mark)*
2. variable cost; *(1 mark)*
3. relevant range;  *(1 mark)*
4. breakeven point;  *(1 mark)*
5. margin of safety. *(1 mark)*

(b) Describe any **four** limitations of CVP analysis. *(4 marks)*

1. CVP analysis is based on cost behavior. Costs may either be fixed or variable. However, some costs, mixed costs or semi-variable/semi-fixed costs comprise of both fixed and variable components. For analysis purposes, these need to be separated into their fixed and variable components.

**Required:**

Describe one technique that may be used in separating the components of a mixed cost. *(6 marks)*

(**Total 15 marks)**

**QUESTION 4**

Explain the following:

1. Two reasons for carrying out a bank reconciliation and mention any two items which appear in the reconciliation statement. *(4 marks)*

1. The differences between non-cumulative preference shares and cumulative preference shares. *(2 marks)*

1. Any two differences between a receipts and payments account and an income and expenditure account. *(2 marks)*

(d) The limitations of ratio analysis as a basis for analyzing business performance.

*(3 marks)*

1. Four categories of costs that make up the production cost of goods completed in manufacturing accounts. *(4 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Explain the following accounting terms and give two examples in each case.

Standing order *(4 marks)*

Day books *(4 marks)*

Deposit account (*4 marks)*

Prepayment  *(4 marks)* Creditors/purchases ratio *(4 marks)*

**(Total 20 marks)**

**QUESTION 6**

(a) Outline **two** similarities and **two** differences between budgets and standards.

(*4 marks)*

(b) List **four** possible uses of standard costing. *(4 marks)*

(c) Describe how the budget manual and the budget committee can assist in the administration of the budgeting process. (*6 marks)*

(d) Explain how zero base budgeting techniques differ from incremental budgeting. (*6 marks)*

**(Total 20 Marks)**

**QUESTION 7**

(a)The Makata plant of **CHEMICALS LIMITED** produces an industrial chemical. At the beginning of the year, the plant had the following standard cost card:

K

Direct materials (10kg @ $16.00 per kg) 160.00

Direct materials (0.75hr @ $180.00 per hr) 135.00

Variable overhead (0.75 hr @ $30.00 per hr) 22.50

Fixed overhead (0.75 hr @ $40.00 per hr) 30.00

Standard cost per unit 347.50

The plant calculates its overhead rates using practical capacity which is 7,200 units. The actual results for the year are as follows:

1. 7,000 units were produced.
2. 74,400 kg of direct materials were purchased at K15.00 per kg.
3. 73,600 kg of direct materials were used.
4. 5,600 hours of direct labour were worked at a rate of K179.00 per hour.
5. Variable overhead amounted to K175,400.
6. Fixed overhead amounting to K214,000 was incurred.

**Required:**

(a) Calculate the following variances:

(i) Price and usage variances for direct materials. *(4 marks)*

1. Direct labour rate and direct labour efficiency variances. (*4 marks)*
2. Variable overhead expenditure and efficiency variances*.(4 marks)*
3. Fixed overhead expenditure and volume variance. *(4 marks)*

(b) What does the fixed overhead volume variance mean? *(4 marks)*

**(Total 20 marks)**

**QUESTION 8**

The following budget was prepared by **Tupochele** Limited in respect of one of its products.

K

Sales revenue 200,000

Direct materials cost 45,000

Direct labour cost 45,000

Variable overhead cost 22,500

Fixed overhead cost 45,000

Production and sales volumes are expected to be the same at 15,000 units. Direct materials purchased and used are also expected to be the same at 7,500 kg. Direct labour hours are expected to be 11,250.

The following operating statement summarises the performance of the product during the period.

K

Budgeted profit 42,500

Sales volume variance 8,500 A

Sales price variance 40,000 A

Standard profit on actual sales (6,000)

Cost variances Adverse Favourable

K K

Direct material price 10,000

Direct material usage 1,500

Direct labour rate 2,000

Direct labour efficiency 1,500

Variable overhead expenditure 6,000

Variable overhead efficiency 750

Fixed overhead expenditure 25,000

Fixed overhead volume 1,500

11,750 36,500 24,750 F

Actual profit 18,750

The following additional information is also available:

(1) Stocks of raw materials and finished goods are valued at standard cost.

(2) 15,500 units were produced during the month.

(3) The actual sales revenue was K120,000.

(4) 10,000kg of direct materials were purchased.

**Required:**

1. Calculate the following:
2. the actual sales volume;
3. the actual quantity of materials used;
4. the actual direct materials cost;

(iv) the actual direct labour hours;

* 1. the actual direct labour cost;

(vi) the actual variable overhead cost;

(vii) the actual fixed overhead cost. *(14 marks)*

(b) Explain the possible causes of the following:

(i) direct materials usage variance,

(ii) direct labour rate variance,

(iii) sales volume variance. *(6 marks)*

**(Total 20 marks**)

**END OF EXAMINATION PAPER**